

General Purposes

MISCELLANEOUS

EXECUTIVE PROGRAM

The Miscellaneous Function consists of centralized accounts that cover operational costs attributable to several or all City agencies. These accounts and their purposes are outlined below.

| <u>Account</u> | <u>Purpose</u> |
|---|---|
| Retirement System Contributions | Mandatory employer's share of contributions to the State Employees' Retirement System. |
| Pension Contributions | Mandatory employer's share of pension contributions. |
| FICA Tax | Mandatory employer's share of contributions to the FICA tax. |
| Workers' Compensation | Medical and other payments for employees' work-related injuries and illnesses. |
| Unemployment Compensation | Mandatory employer's contribution to the State Unemployment Compensation Fund. |
| Health Fund | Mandatory employer's contribution to the State Health Fund for employees' medical insurance. |
| Provision for Salary Adjustments and Accrued Vacation Pay | Funds salary requirements that have not been budgeted in agencies' accounts; and funds lump-sum payments for accrued vacation required for individuals who leave City employment. |
| Provision for Judgments and Losses | Provision for Judgments and Losses Funds the City's legal liability needs not covered by insurance. |
| Provision for Risk Management | Funds the City's insurance costs including premiums and deductibles, and risk management information, claims adjustment, actuarial and other services required for the sound administration of the City's risk financing program. |
| Provision for Real Property Tax Refunds | Funds the City's real property tax refunds (to property owners). |
| Provision for Deferred Compensation Plan | Provision for an employer's contribution to a deferred compensation plan provided to employees by collective bargaining agreement. |
| Provision for Legal Cost Services Plan | Provision for an employer's contribution to a legal plan provided to employees by collective bargaining agreement. |

MISCELLANEOUS

Funds are provided for the payment of retirement system, pension, FICA tax, workers' compensation, unemployment compensation, health fund, judgments and losses, risk management and other costs.

FY 2004 HIGHLIGHTS

Employees Retirement System - Reflects a 84% increase as certified by the Board of Trustees of the Employees' Retirement System of the State of Hawaii.

Workers' Compensation - Reflects an 13% increase based on benefit experience.

Unemployment Compensation - Reflects a 29% decrease based on benefit experience.

Health Fund - Reflects a 10% increase based primarily on estimates by the State Health Fund for fiscal year 2004.

Provision for Salary Adjustments and Accrued Vacation Pay - A lower amount is required because negotiated pay raises for employees are provided in departmental budgets.

EXECUTIVE BUDGET

| | <u>Proposed Budget for Fiscal Year 2004</u> | | | | |
|---|---|---------------------------------|-----------------------------|--------------------------|--------------|
| | <u>Expended FY 2002</u> | <u>Appropriated FY 2003</u> | <u>Current Services</u> | <u>Budget Issues</u> | <u>Total</u> |
| <u>Activity</u> | | | | | |
| Retirement System Contributions....\$ | 33,388,555 | 17,659,694 | 32,565,069 | | 32,565,069 |
| Pension Contributions..... | 67,699 | 79,000 | 79,000 | | 79,000 |
| FICA Tax..... | 16,722,927 | 17,666,709 | 17,823,590 | | 17,823,590 |
| Workers' Compensation..... | 10,139,521 | 10,569,730 | 11,936,407 | | 11,936,407 |
| Unemployment Compensation..... | 450,128 | 592,637 | 424,194 | | 424,194 |
| Health Fund..... | 57,671,888 | 63,336,666 | 69,690,249 | | 69,690,249 |
| Provision for Salary Adjustments and Accrued Vacation Pay..... | 0 | 6,447,383 | 4,000,000 | | 4,000,000 |
| Provision for Judgments & Losses... | 4,800,000 | 3,800,000 | 3,800,000 | | 3,800,000 |
| Provision for Risk Management..... | 4,482,191 | 5,873,417 | 5,777,058 | | 5,777,058 |
| Provision for Real Property Tax Refunds..... | 19,641 | 150,000 | 150,000 | | 150,000 |
| Provision for Deferred Compensation Plan..... | 0 | 304,200 | 304,200 | | 304,200 |
| Provision for Legal Cost Premium Payments..... | 165,000 | 0 | 0 | | 0 |
| Total | \$ 127,907,551 | 126,479,436 | 146,549,767 | 0 | 146,549,767 |
| <u>Source of Funds</u> | | | | | |
| General Fund..... | 97,813,788 | 95,831,029 | 110,829,259 | | 110,829,259 |
| Highway Fund..... | 10,399,019 | 10,338,577 | 11,729,341 | | 11,729,341 |
| Highway Beautification Revolving Fund..... | 0 | 0 | 276,408 | | 276,408 |
| Sewer Fund..... | 9,969,757 | 8,285,032 | 10,290,092 | | 10,290,092 |
| Liquor Commission Fund..... | 516,900 | 502,602 | 680,582 | | 680,582 |
| Special Events Fund..... | 1,612,749 | 2,083,405 | 2,272,025 | | 2,272,025 |
| Hanauma Bay Fund..... | 337,180 | 404,022 | 261,387 | | 261,387 |
| Solid Waste Special Fund..... | 5,941,196 | 7,474,979 | 8,407,184 | | 8,407,184 |
| Golf Fund..... | 1,316,961 | 1,559,790 | 1,803,489 | | 1,803,489 |
| Total | \$ 127,907,551 | 126,479,436 | 146,549,767 | 0 | 146,549,767 |

DEBT SERVICE

Debt service funds are provided for the payment of short/long-term debt service costs. The budgeted debt service amount is provided to pay currently outstanding debt and for the planned issuance of those bonds that are authorized but unissued. The planned issuance may include specific projects in the Capital Program. Projected debt service costs beyond fiscal year 2004 relate to the City's six-year Capital Program and Budget and are reflected in the Multiyear Financial Outlook. Actual debt service costs will be determined by the actual size of the bond issue, market conditions, the timing of bond issuances and cash requirements.

Debt service payments on general obligation bonds and revenue bonds issued to fund capital improvement projects are reflected in the operating budget.

EXECUTIVE PROGRAM HIGHLIGHTS FOR FISCAL YEAR 2004

Two general obligation bond issues totaling \$450 million and one sewer revenue bond issue of \$96.2 million are programmed for fiscal year 2004. Approximately \$591.9 million in general obligation bonds and \$316.8 million in sewer revenue bonds are authorized and unissued as of December 31, 2002.

EXECUTIVE BUDGET

| | Expended FY 2002 | Appropriated FY 2003 | Proposed Budget for Fiscal Year 2004 | | |
|---|---------------------|-------------------------|--------------------------------------|------------------|----------------|
| | | | Current Services | Budget Issues | Total |
| <u>General Fund:</u> | | | | | |
| Bond Principal and Interest..... | \$ 104,713,638 | \$ 125,155,004 | \$ 181,981,296 | \$ ---- | \$ 181,981,296 |
| Other Debt Principal and Interest... | 359,220 | 359,221 | 359,222 | ---- | 359,222 |
| TECP..... | 601,786 | 3,428,754 | 2,224,510 | ---- | 2,224,510 |
| Total (General Fund).... | \$ 105,674,644 | \$ 128,942,979 | \$ 184,565,028 | \$ ---- | \$ 184,565,028 |
| <u>Sewer Fund:</u> | | | | | |
| Sewer Revenue Bond Principal and Interest..... | \$ 18,610,907 | \$ 24,225,240 | \$ 25,333,999 | \$ ---- | \$ 25,333,999 |
| Total Debt Service..... | \$ 124,285,551 | \$ 153,168,219 | \$ 209,899,027 | \$ ---- | \$ 209,899,027 |

The sustained growth of the City in the past has required it to rely on general obligation bonds as a major source of financing for its capital improvement projects. This fiscal year the City through the use of Tax Exempt Commercial Paper (TECP) will restructure its sewer reimbursable general obligation debt service. This will result in a debt service savings of \$10.0 million.

The City will continue to finance wastewater projects with the issuance of wastewater revenue bonds. This approach will require more accountability from the Department of Environmental Services (formerly the Department of Wastewater Management) on managing costs and determining sewer service charge rates.

DEBT SERVICE POLICY

Debt service is guided by Resolution No. 02-140, CD1, Establishing Debt and Financial Policies for the City. Section III of the Resolution states:

1. Debt shall not be used to finance ongoing operational costs.
2. Whenever possible, the City shall pursue alternative sources of funding in order to minimize the level of debt.
3. When feasible, the City shall use special assessment, revenue, or reimbursable bonds in lieu of general obligation debt.
4. Long-term general obligation debt may be incurred when necessary, based on the City's ability to pay. This debt shall be limited to those capital projects that cannot be financed from existing revenues and when there is an existing or near-term need for the project. The project also should be integrated with the City's long-term financial plan and Capital Program.
5. The maturity date for any debt shall not exceed the reasonable expected useful life of the project so financed.
6. The City shall encourage and maintain good relations with financial and bond rating agencies and will follow a policy of full and open disclosure on every financial report and bond prospectus. A rating agency presentation/update shall be conducted at least once annually.
7. The City shall establish affordability guidelines in order to preserve credit quality. Guidelines, which may be suspended for emergency purposes or because of unusual circumstances, are as follows:
 - a. Debt service for general obligation bonds including self-supporting bonds as a percent of the City's total operating budget, including enterprise and special revenue funds, should not exceed 20 percent.
 - b. Debt service on direct debt, excluding self-supported bonds, as a percentage of General Fund revenues should not exceed 20 percent.
8. The total outstanding principal of the City's variable rate debt should not exceed 120% of the City's total short-term investments.
9. Variable rate debt should be used only as a source of interim or construction financing, financing of equipment with a useful life of five years, and short-term financing of debt service. In the event variable rate debt is used to finance debt service, the variable rate debt shall be refunded as a part of the next long-term bond issuance.
10. Whenever possible, the City shall seek State funding for financing of qualified wastewater projects.
11. The City continually shall review outstanding City debt and initiate refinancing when feasible.
12. Unless the refunding of bonds is for the purpose of restructuring existing debt service on outstanding bonds or to refund outstanding bonds which bear interest at a rate or rates which shall vary from time to time, the City shall refund callable fixed rate bonds only if the present value savings which shall inure to the City as a result of the refunding shall not be less than 2%.

STATEMENT OF LEGAL DEBT MARGIN
December 31, 2002

| | | | |
|---|----|----------------|---|
| Gross Assessed Valuation of Real Property, January 31, 2003 | \$ | 95,052,356,100 | |
| Less Exempt Valuation..... | - | 15,096,913,200 | |
| Assessor's Net Taxable Valuation | | 79,955,442,900 | |
| Less Valuation on Appeal | - | 1,601,790,536 | |
| Taxpayers' Valuation..... | | 78,353,652,364 | |
| Add 50 percent of Valuations on Appeal | + | 800,895,268 | |
| Net Assessed Valuation of Taxable Real Property for Rate Purposes | \$ | 79,154,547,632 | * |
| Debt Limit -- 15 percent of Net Assessed Valuation of Taxable Real Property | \$ | 11,873,182,145 | * |
| Less Net Funded and Other Indebtedness..... | - | 1,306,188,341 | * |
| Legal Debt Margin | | 10,566,993,804 | |
| Less Bonds Authorized and Unissued | - | 591,897,440 | |
| Net Legal Debt Margin..... | \$ | 9,975,096,364 | |

The City's ability to pay its debt is determined by comparing net funded and other debt to net assessed valuation of taxable real property. Funded debt is debt for which the City has pledged its full faith and credit. Net funded debt is debt minus self-supporting debt, such as revenue bonds. Bond rating agencies recommend that net funded and other debt not exceed 5 percent of net assessed valuation. The current ratio is less than 2 percent.

* The State Constitution limits the City's funded debt to 15 percent of the net assessed valuation of taxable real property. Based on the above figures, the ratio of net funded debt to net assessed valuation is 1.65 percent.